Spring 2022
Doctoral Seminar in Accounting

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Course Description: Accounting institutions play a critical role in the functioning of markets and organizations. This course provides an introduction to analytical models useful for studying management accounting, auditing, and financial accounting. Readings will be taken from academic journals and notes provided in class. The general purpose of this class is to expose you to frameworks that will help to energize your research program. Specific class goals include i) developing basic reasoning and modeling skills, ii) introducing you to several simple prototype models which you can solve yourself, and iii) improving your ability to describe the forces operating in a paper’s model and how those forces interact to produce the paper’s results.

Prerequisites: The approach will be rigorous and analytical. Students are assumed to have a good background in microeconomic theory and to be comfortable with the use of multivariate calculus and mathematical statistics.

While I selectively provide class notes and other review materials for topics which may be a bit more challenging for those with limited analytical backgrounds, I expect a high level of motivation from everyone in the class.
Course Outline

Information in Markets:

1. Elementary Disclosure Models:

   - The Unraveling Result
     Milgrom (1981)
   - Costly Disclosure
     Verrecchia (1983)
   - Uncertain Information Endowment
     Jung and Kwon (1988)
   - Cheap Talk
     Crawford and Sobel (1982)

2. Securities Markets:

   - Disclosure and risk aversion
     Verrecchia (1982)
   - Rational Expectations Models
     Fischer & Verrecchia (2000); Ewert & Wagenhofer (2005)
   - Optimal Release of Information by Firms
     Diamond (1985)
   - The Kyle Model of Insider Trading
     Kyle (1985)
   - Insider Trading and Bid-Ask Spreads
     Glosten and Milgrom (1985)

3. Competition and Disclosure:

   - Voluntary (Truthful) Disclosure
     Darrough and Stoughton (1990)
   - Untruthful Disclosure
     Evans and Sridhar (2001)

4. Various Topics:

   - Mark-to-market Accounting
     Plantin, Sapra, and Shin (2008)
   - Taxes and Signaling
     Williams, Hugher, and Levine (2010)
   - Real effects of Disclosure
     Kanodia and Sapra (2016)
   - Bayesian Persuasion
     Micheali (2017)
   - Nonfinancial Disclosure
     Ozbilgin and Penno (2005)
   - Auditing Standards
     Dye (1993); Ye and Simunic (2011)

Accounting and Organizations:

1. Principal-Agent Theory – Moral Hazard:

   - The Holmstrom Model
     Holmstrom (1979)
   - Assessing Managerial Ability
     Hermalim and Weisbach (2017)

2. Principal-Agent Theory – Adverse Selection:

   - Board Independence and CEO Turnover
     Laux (2008)
   - Marking to market vs. Taking to Market
     Plantin and Tirole (2018)
Potpourri:

Discriminatory Information Disclosure
Li H, Shi X.. AER (2017)

Information Design: A Unified Perspective.
Bergemann D, Morris S. JEL (2019)

Information Spillovers in Asset Markets with Correlated Values.

Efficient Capital Markets, Inefficient Firms: A Model of Myopic Corporate Behavior
Stein, QJE (1989)

Accounting Information, Disclosure, and the Cost of Capital
Lambert, Leuz, and Verrecchia, JAR (2007)

Uniform Versus Discretionary Regimes in Reporting Information with Unverifiable Precision and a Coordination Role.
Chen, Lewis, Schipper, and Zhang, JAR (2017)

Causal Inference in Accounting Research
Gow, Larcker, and Reiss, JAR (2016)

How Frequent Financial Reporting Can Cause Managerial Short-Termism
Gigler, Kanodia, Sapra, and Venugopalan, JAR (2014)

Voluntary Disclosures, Corporate Control, and Investment.
Kumar, Langberg, and Sivarakrishnan, JAR (2012)

Discretionary Aggregation
Ebert, Simons, and Stecher, TAR (2017)

Independent and Affiliated Analysts: Disciplining and Herding.
Xue, TAR (2017)

Synergy between Accounting Disclosures and Forward-Looking Information in Stock Prices.
Arya, Mittendorf, and Ramanan, TAR (2017)
References

Asriyan V, Fuchs W, Green B.  
**Information Spillovers in Asset Markets with Correlated Values.**  

Bergemann D, Morris S.  
**Information Design: A Unified Perspective.**  
*Journal of Economic Literature.* 2019;57(1):44-95

Crawford, Vincent P. and Joel Sobel  
**Strategic Information Transmission**  
READ: SECTIONS ONE AND TWO

Darrough, M. and N. Stoughton.  
**Financial Disclosure Policy in an Entry Game**  

Diamond, Douglas W.  
**Optimal Release of Information By Firms**  

Dye, R.,  
**Auditing Standards, Legal Liability, and Auditor Wealth**  
*Journal of Political Economy,* 1993, 887-914

Evans, J.H. and S. Sridhar,  

Ewert R. and A. Wagenhofer  
**Economic Effects of Tightening Accounting Standards to Restrict Earnings Management**  
*The Accounting Review,* Vol 80(4), 2005, 1101-1124

Paul E. Fischer and Robert E. Verrecchia  
**Reporting Bias**  
The Accounting Review 2000 75:2, 229-245

Glosten L. R. and Milgrom P.  
**Bid, Ask, and Transaction Prices in a Specialist Market with Heterogenously Informed Traders**  
*Journal of Financial Economics,* 1985, 71-100
Hermalin, Benjamin E. and Weisbach, Michael S.,
Assessing Managerial Ability: Implications for Corporate Governance
Forthcoming, The Handbook of the Economics of Corporate Governance; Charles A. Dice

Holmstrom, Bengt
Moral Hazard and Observability
The Bell Journal of Economics, Vol. 10, 1979, 74-91

Jung, Woon-Oh and Young K. Kwon
Disclosure When the Market Is Unsure of Information Endowment of Managers

KANODIA, C. and SAPRA
A Real Effects Perspective to Accounting Measurement and Disclosure: Implications and Insights for Future Research

Kyle, Albert S.
Continuous Auctions and Insider Trading
READ: SECTIONS ONE AND TWO

Laux, Volker
Board Independence and CEO Turnover

Li H, Shi X.
Discriminatory Information Disclosure

Magee, Robert P. and Mei-Chiun Tseng
Audit Pricing and Independence

Michaeli, B.
Divide and inform: Rationing information to facilitate persuasion.

Milgrom, P.
Good News and Bad News: Representation Theorems and Applications

Mehmet Ozbilgin and Mark Penno
Corporate Disclosure and Operational Strategy: Financial vs. Operational Success
PLANTIN, G., SAPRA, H. and SHIN, H. S.
Marking-to-Market: Panacea or Pandora's Box?

Guillaume Plantin, and Jean Tirole
Marking to Market versus Taking to Market
American Economic Review, 2018

Verrecchia, R. E.
The Use of Mathematical Models In Financial Accounting

Verrecchia, R.E.
Discretionary Disclosure

Williams M.G., J.S. Hughes, and C.B. Levine
Influence of Capital Gains Tax Policy on Credibility of Unverified Disclosures